

## Message Text

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ORIGIN EB-07

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 PA-01 PRS-01 NSC-05

SS-15 STR-04 CEA-01 L-03 H-02 INT-05 AGR-05 /095 R

DRAFTED BY EB/ORF/ICD:WAWEINGARTEN:KAM

APPROVED BY EB/ORF:SWBOSWORTH

NEA/RA:DTMORRISON

EB/ORF/ICD:EAWENDT

TREASURY:BBENTON

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R 070524Z AUG 76

FM SECSTATE WASHDC

TO AMEMBASSY TEL AVIV

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E.O. 11652: N/A

TAGS: EFIN

SUBJECT: US PROPOSAL FOR AN INTERNATIONAL RESOURCES BANK

REF: TELAVIV 5219

1. FOLLOWING RESPONSES ARE KEYED TO QUESTIONS IN PARAGRAPH  
1 OF REFTEL:

(A) THE IRB COULD GUARANTEE EQUITY FOR A SPECIFIC PERIOD OF  
TIME. THE IRB GUARANTEES MIGHT BE SUPPLEMENTAL TO THE  
PROTECTION PROVIDED BY NATIONAL EQUITY INSURANCE SCHEMES  
SUCH AS THE UNITED STATES OVERSEAS PRIVATE INVESTMENT  
CORPORATION (OPIC).

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THE IRB WOULD NOT INVEST ITS OWN EQUITY. THE PROPOSED 400

MILLION DOLLAR EXPANSION IN THE CAPITAL OF THE INTERNATIONAL FINANCE CORPORATION (IFC) SHOULD PROVIDE A MULTILATERAL SOURCE OF EQUITY FINANCE IN MINERAL PROJECTS WHICH THE IRB WOULD NOT DUPLICATE. A MAJOR FUNCTION OF THE IRB WOULD BE TO FACILITATE BOND FINANCE OR OTHER FORMS OF LOAN FINANCE, INCLUDING THAT PROVIDED IN CONNECTION WITH PRODUCTION-SHARING AND QUOTE TAKE OR PAY END QUOTE CONTRACTS.

(B) IN GENERAL, THE IRB WOULD HAVE A BROAD MANDATE TO OPERATE IN THE RESOURCES FIELD IN DEVELOPING COUNTRIES. BUT ITS ACTIVITIES WOULD BE FOCUSED IN AREAS WHERE THERE IS A CLEAR NEED TO FACILITATE INVESTMENT BECAUSE NON-COMMERCIAL CONSIDERATIONS ARE INHIBITING INVESTMENT FLOWS TO DEVELOPING COUNTRIES.

THE MAIN ACTIVITY OF THE IRB WOULD OCCUR IN MINERAL EXTRACTION. IT MAY PLAY A ROLE IN ENERGY PROJECTS, INCLUDING OIL, NATURAL GAS, COAL AND URANIUM. WE DO NOT ANTICIPATE AN IRB ROLE IN AGRICULTURE, PARTICULARLY FOODSTUFFS, BECAUSE OF THE HEAVY INVOLVEMENT OF THE WORLD BANK AND THE REGIONAL DEVELOPMENT BANKS IN THE AGRICULTURAL FIELD AND BECAUSE OF THE PROSPECTIVE ACTIVITIES OF THE INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT.

THE UNITED STATES WOULD RESIST EVERY EFFORT TO MAKE POLITICAL IRB DECISIONS ON RESOURCE PROJECTS. IRB PARTICIPATION IN PROJECTS SHOULD BE BASED SOLELY ON COMMERCIAL VIABILITY, THE INTEREST OF ALL PARTIES IN IRB PARTICIPATION AND THE USEFULNESS OF AN IRB ROLE IN FACILITATING THE UNDERTAKING.

(C) THE IRB COULD PARTICIPATE IN PROJECTS INVOLVING THE INITIAL STAGE OF PROCESSING SUCH AS SMELTING OR REFINING. IN SOME CASES PROCESSING PROJECTS MIGHT BE TIED INTO THE MINING PROJECT ITSELF IN AN OVERALL INVESTMENT PACKAGE.

WE WOULD NOT EXPECT THE IRB TO BECOME INVOLVED IN FURTHER STAGES OF PROCESSING SUCH AS MILLING AND FABRICATING, WHICH ARE MORE MANUFACTURING TYPE ACTIVITIES.

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THE IRB MIGHT PLAY AN IMPORTANT ROLE IN THE ENERGY FIELD, PARTICULARLY WITH RESPECT TO OIL AND NATURAL GAS DEVELOPMENT. SOME ENERGY PROJECTS ARE EXCEEDINGLY LARGE IN TERMS OF CAPITAL REQUIREMENTS, RUNNING INTO BILLIONS OF DOLLARS. WE WOULD WANT THE IRB TO BE CAUTIOUS ABOUT OVER-EXTENDING ITS COMMITMENTS BY HEAVY PARTICIPATION IN PROJECTS OF THIS SORT. WE EXPECT TO ELABORATE THE ENERGY ROLE OF THE IRB IN THE COURSE OF OUR DISCUSSIONS IN THE ENERGY COMMISSION OF

THE CONFERENCE ON INTERNATIONAL ECONOMIC COOPERATION.

WE DO NOT WANT TO SPECULATE ABOUT IRB PARTICIPATION IN DEEP SEABED MINING PROJECTS UNTIL WE ARE MORE CERTAIN ABOUT THE REGIME UNDER WHICH DEEP SEABED MINING WOULD TAKE PLACE AND UNTIL WE HAVE A BETTER IDEA OF THE POSSIBLE DIFFICULTIES THAT DEVELOPING COUNTRIES MIGHT ENCOUNTER WITH REGARD TO THEIR PARTICIPATION IN SUCH PROJECTS.

(D) THE FUNCTIONS OF THE IRB WOULD DIFFER FROM THE IBRD OF THE WORLD BANK GROUP IN SEVERAL RESPECTS. FIRST, THE IRB WOULD FUNCTION TO A LARGE EXTENT AS A GUARANTOR OF NON-COMMERCIAL RISK, NOT AS A DIRECT LENDER TO PROJECTS OR TO GOVERNMENTS, THUS HAVING THE EFFECT OF INCREASING OVER-ALL LDC ACCESS TO CAPITAL MARKETS. SECOND, THE IRB WOULD BE A PARTICIPANT IN THE TRILATERAL CONTRACT, WHEREAS THE WORLD BANK LENDS TO PROJECTS FROM GENERAL FUNDS. THIRD, THE IRB WOULD LEND ONLY TO DIRECTLY PRODUCTIVE, USUALLY EXPORT-ORIENTED PROJECTS WHICH GENERATE THEIR OWN POTENTIAL TO PAY BACK LOANS, WHEREAS THE WORLD BANK LENDS TO SOCIAL EDUCATION, URBAN RENEWAL, AND OTHER INFRASTRUCTURE PROJECTS.

THE IFC LENDS MAINLY TO PRIVATE INVESTORS OR PARTICIPATES IN EQUITY. IT DOES NOT PERFORM EXTENSIVE GUARANTEE FUNCTIONS, PARTICIPATE IN TRILATERAL CONTRACTS OR LEND TO ANY GOVERNMENT PROJECTS. NEVERTHELESS, THE IRB WOULD WORK VERY CLOSELY WITH THE IFC AND THE IBRD, AND COULD BECOME A PART OF THE WORLD BANK GROUP OR A SEPARATE FUNCTION OF THE IFC OR IBRD INSTITUTIONS.

(E) A COMMODITY BOND IS A BOND USED TO FINANCE A PROJECT WHICH CARRIES WITH IT A RIGHT TO ONE OF THE FOLLOWING:

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-- A FIXED AMOUNT OR SHARE OF THE PRODUCTION THAT RESULTS FROM THE PROJECT OVER A SPECIFIED TIME FRAME;

-- THE REVENUES FROM THE SALE OF A FIXED AMOUNT OR SHARE OF THE PROJECT OVER A SPECIFIED TIME FRAME; OR

-- A FIXED AMOUNT OF CASH AT A SPECIFIED DATE OR OVER A SPECIFIED TIME FRAME IN WHICH THE BONDHOLDER WOULD HAVE A CLAIM ON THE PRODUCT OR ON THE PROCEEDS FROM THE SALE OF A GIVEN AMOUNT OF PRODUCT AS SECURITY OR COLLATERAL FOR THE BOND.

THE IDEA OF THE COMMODITY BOND IS FLEXIBLE AND IT WOULD BE AN ENTIRELY OPTIONAL, NON-OBLIGATORY FORM OF FINANCE FOR PROJECTS IN WHICH THE IRB WOULD PARTICIPATE.

THE FUNCTION OF THE FIRST TYPE OF BOND, IN WHICH THE HOLDER HAS A RIGHT TO A SHARE OF THE PRODUCTION, IS NOTHING MORE THAN THE EMBODIMENT OF A PRODUCTION SHARING ARRANGEMENT OF A QUOTE TAKE OR PAY END QUOTE VARIETY. A PRIVATE INVESTOR WOULD PUT UP LOAN CAPITAL IN RETURN FOR A CLAIM ON PRODUCTION WHICH HE COULD PAY FOR OR ACCEPT AS PAYMENT ON THE BOND. THERE ARE TWO ADVANTAGES IN HAVING AN INSTRUMENT OF THIS SORT AS AN ELEMENT IN THIS TRANSACTION. FIRST, THE INSTRUMENT COULD BE POSTED AS COLLATERAL BY THE PRIVATE INVESTOR FOR A COMMERCIAL LOAN. SECOND, THE BOND COULD BE SOLD AND THE RIGHTS TO PRODUCTION TRANSFERRED.

THE SECOND TYPE OF COMMODITY BOND, WHICH ENTITLES THE HOLDER TO THE REVENUE FROM A PROJECT, IS VERY SIMILAR TO THE FIRST, EXCEPT THAT THE HOLDER WOULD NOT HAVE THE OBLIGATION TO MARKET THE PRODUCT ON HIS OWN. THIS TYPE OF BOND COULD MORE LIKELY BE A MARKETABLE INSTRUMENT, SALEABLE TO BUYERS IN SECONDARY MARKETS.

THE THIRD TYPE OF COMMODITY BOND, DENOMINATED IN CASH, IS A SECURED, FIXED TERM LOAN. LIKE ANY NORMAL BOND, IT WOULD BE DENOMINATED IN CASH. IT COULD BE SECURED, IN PART, BY A CLAIM ON THE FLOW OF COMMODITIES FROM THE PROJECT.

ALL OF THE ABOVE COULD BE USED IN CIRCUMSTANCES IN WHICH IT LIMITED OFFICIAL USE

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WAS DIFFICULT TO RAISE ENOUGH CAPITAL THROUGH ORDINARY LOANS OR THE SALE OF ORDINARY BONDS.

(F) THE MANNER IN WHICH DECISIONS ARE MADE FOR THE IRB WILL BE A MATTER FOR GOVERNMENTAL NEGOTIATION. IN ORDER TO MAXIMIZE THE ABILITY OF THE IRB TO RAISE FINANCE FOR RESOURCE PROJECTS AND TO INSPIRE INVESTOR CONFIDENCE, WE BELIEVE THAT VOTING IN IRB DECISIONS SHOULD REFLECT THE RELATIVE FINANCIAL CONTRIBUTIONS OF IRB MEMBERS.

2. THE DEPARTMENT, WITH ASSISTANCE FROM TREASURY AND OTHER USG AGENCIES, IS IN THE PROCESS OF DRAWING UP A COMPLETE LIST OF ANSWERS TO THE MOST COMMONLY ASKED QUESTIONS ABOUT THE ROLE AND FUNCTIONS OF IRB. THIS LIST WILL BE FORWARDED IN NEAR FUTURE.

3. MOST DEVELOPED COUNTRIES FULLY SUPPORT THE IRB CONCEPT, WHILE MANY DEVELOPING COUNTRIES DESIRE FURTHER DETAILS PRIOR TO MAKING ANY DECISION.

4. WE PLAN TO PURSUE THE IRB PROPOSAL IN CIEC DISCUSSIONS.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** DEVELOPMENT BANKS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 07 AUG 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** greeneet  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976STATE196606  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** WAWERINGARTEN:KAM  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D760305-0029  
**From:** STATE  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1976/newtext/t19760875/aaaacngo.tel  
**Line Count:** 223  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ORIGIN EB  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 5  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** greeneet  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 23 JUL 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <23 JUL 2004 by ElyME>; APPROVED <07 OCT 2004 by greeneet>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** US PROPOSAL FOR AN INTERNATIONAL RESOURCES BANK  
**TAGS:** EFIN, IS, INTERNATIONAL RESOURCE BANK  
**To:** TEL AVIV  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006